

PERFECT FRY

REPORT 1997

CORPORATION

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



CORPORATE PROFILE

Perfect Fry Corporation is a public company headquartered in Calgary, Alberta, Canada. The aggressive pioneer spirit is a cornerstone in Perfect Fry's entrepreneurial quest for success.

The company manufactures counter-top deep fryers with built-in air filtration and fire prevention systems. The super efficient Perfect Fry is slightly bigger than a microwave oven.

Perfect Fry's market niche is fast food retailers who sell popular tasty deep fried foods at snack bars, food kiosks, sport & recreation outlets, concession stands, and convenience stores.

Perfect Fry's main sales force is an international network of independent distributors and dealers supported by targeted marketing and sales promotion programs.

Perfect Fry offers investors the basic elements for equity growth.

- Experienced management, with incentive to succeed.
- Dedicated employees with a stake in the company's future.
- Proven products serving a strong consumer demand: patented and continuously updated by research and development.
- A rapidly expanding distribution network.
- Access to capital to finance rapid growth.
- A production, marketing, distribution plan that is carving a profitable niche in the gigantic world-wide fast food industry.

1997 HIGHLIGHTS

- 1) Development of a second generation line of ventless deep fryers.
- 2) Major expansion of the distributor network in the USA.
- 3) Sales success in Australia.
- 4) Distribution agreement in the UK.



PERFECT FRY
The Profit-maker

PFC MODELS:

- Wide range of cooking capacities
- State of the art electronic controls

ANNUAL MEETING

Perfect Fry Corporation's Annual Meeting for fiscal year 1997: April 27, 1998 at 9:00 a.m. at 3700, 400 3rd Avenue SW, Calgary, Alberta, Canada.

STOCK EXCHANGE LISTING

Perfect Fry Corporation, symbol PNM, is listed on the Alberta Stock Exchange in Calgary.
USA 12G3-2 (b) Exemption Number 82-1609.

LETTER FROM THE CHAIRMAN AND PRESIDENT

The fiscal year ended October 31, 1997 was a year of change for Perfect Fry. Food equipment manufacturers are constantly faced with the challenges of providing the products demanded by customers in a highly competitive industry. And those challenges are multiplied by stringent regulations that govern sanitation and safety.

During the past year regulations dictated some design changes in the deep fryers we manufacture. This was not good news. So we decided to make it good news.

We keep in close touch with the people who buy and use Perfect Fry deep fryers. We have extensive accurate feedback from customers and distributors.

That feedback went into the design of the second generation of Perfect Fryers. Our product line has broadened considerably. The Perfect Fry offers the widest range of product options among ventless deep fryers. Its state of the art electronic controls are easier to use, provide more powerful management controls for the retailer, and offer thorough diagnostics for quicker lower cost service.

The new PFC fryers have passed all the regulatory requirements with flying colours. The air filtration system is improved. The fire prevention system is first rate. The Perfect Fry has been tested and certified by ITS Intertek Testing Services and NSF. The Perfect Fry is a reliable and powerful profit-making tool for the commercial food equipment end-user and distributor.


All of this has had a price. Lower sales, higher costs. We call it short term pain for long term gain. Not an original thought, but an accurate description of what our employees, the Board of Directors, and many loyal patient shareholders experienced this past year.

During the first Quarter of fiscal 1998, Dale Morice resigned as Chairman, a director, and CEO. He made a significant contribution to Perfect Fry during the past four years. We offer Dale our sincere thanks and wish him every success in his future endeavors.

In our opinion, Perfect Fry is now in the strongest position in its history. Interest in our products has never before come from as many large multi-outlet fast food retailers nor from as many parts of the world. The Perfect Fry is a proven performer in Wal-Mart and Orange Julius. Now others among the world's largest and best known food retailers are considering the Perfect Fry: in the USA, Canada, the UK, and Australia. And Food equipment distributors in other European countries, the middle east, and Latin America are expressing keen interest.

Perfect Fry Company has a dedicated group of experienced and diligent employees. Our distribution network gets stronger every month. Suppliers provide timely reliable products and service. Satisfied customers offer positive feedback and invaluable testimonials. Patient shareholders continue to exhibit good faith. To all we offer our most sincere appreciation and our promise to work together to realize our exciting potential.

On behalf of the Board,

A handwritten signature in cursive script, appearing to read "J. Senior".

Jack Senior
Chairman

A handwritten signature in cursive script, appearing to read "G. Calderwood".

Gary Calderwood
President and CEO

MANAGEMENT DISCUSSION AND ANALYSIS

SALES AND MARKETING

During the past year we continued to showcase the Perfect Fry at major national and international trade shows and, in cooperation with distributors, at regional and local shows. Targeted advertising and sales promotion spread the word throughout the food equipment industry.

Carefully monitored feedback has shown us a big improvement in the market's reaction to Perfect Fry Company's sales and marketing efforts.

First, most of the product inquiries we receive ask where or from whom a Perfect Fry can be purchased or leased, a big step forward from the previous standard question "what is a Perfect Fry?".

Second, discussions with the very large multi-outlet food chains and franchisers are more frequent and with decision makers rather than information gatherers.

Third, the new PFC models with their wider range of product options are receiving a wider range of buying interest, especially from the large multi-outlet food retailers.

Fourth, we are receiving more enthusiastic marketing cooperation from major food companies whose products are cooked in the Perfect Fry.

These four points are a powerful indication that the Perfect Fry is beginning to receive widespread market acceptance.

To achieve the Perfect Fry's extremely large sales potential our first priority in sales and marketing is a distribution system that serves the USA. We are making major strides.

Our current North American market coverage is near 50%, much of it achieved very recently, and not yet reflected in sales results. There is much room for growth.

There is strong global interest. We have excellent representation in Australia and the UK. Discussions are underway with distributors in three European countries, the middle east, and Latin America.

Distributors invest in an inventory of Perfect Fryers, and have sales responsibility for a specific territory. National accounts in North America are handled by Perfect Fry Company in cooperation with distributors.

FINANCIAL CONDITION

Long term debt, the \$118,500 balance owing on a loan from Western Economic Development, was repaid during the past year. Development costs for the new model PFC fryers totaled \$261,000. Fixed assets additions were \$97,000. We have the balance sheet flexibility to finance major production and sales increases.

DEVELOPMENTS & OPERATIONS

The new PFC model fryers feature state of the art electronics, air filtration, and fire prevention systems. All were designed and developed by Perfect Fry's engineering services staff, capably assisted by suppliers.

Regulatory approvals, covering all safety and sanitation certification requirements, are in place with ETL and NSF listings. CE listing is expected during the second quarter.

A new computing system was installed, providing us with state of the art management information and access to new technologies and global marketing and finance connections.

Perfect Fry Distributors & Dealers Locations

At January 31:	1996	1997	1998
Canada	8	11	16
USA	8	16	33
Europe, Australia	<u>0</u>	<u>0</u>	<u>5</u>
Totals	16	27	54

Consolidated Financial Statements of

PERFECT FRY CORPORATION

Years ended October 31, 1997 and 1996

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the production of the Company's financial statements. Management believes that the financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial condition and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

The independent auditors appointed by the shareholders of the Company have audited the Company's financial statements in accordance with generally accepted auditing standards and they provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the company has an Audit Committee which meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.



Jack F. Senior
Chairman of the Board



Gary G. Calderwood
President and CEO

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Perfect Fry Corporation as at October 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
December 2, 1997

PERFECT FRY CORPORATION

Consolidated Balance Sheets

October 31, 1997 and 1996

	1997	1996
Assets		
Current assets:		
Cash	\$ 64,863	\$ 10,417
Accounts receivable	384,690	188,447
Inventories (note 2)	819,440	1,261,929
Prepaid expenses	80,386	20,184
	1,349,379	1,480,977
Capital assets (note 3)	148,487	84,665
Patents, processes and other (note 4)	645,268	463,333
	\$ 2,143,134	\$ 2,028,975
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 185,558	\$ 59,542
Current portion of long-term debt	—	118,500
	185,558	178,042
Shareholders' equity:		
Share capital (note 6)	1,433,471	1,356,552
Retained earnings	524,105	494,381
	1,957,576	1,850,933
Commitment (note 9)		
	\$ 2,143,134	\$ 2,028,975

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

PERFECT FRY CORPORATION

Consolidated Statements of Earnings and Retained Earnings

Years ended October 31, 1997 and 1996

	1997	1996
Revenue	\$ 1,718,260	\$ 1,411,154
Costs and expenses:		
Operating, selling and administrative	1,516,853	1,170,110
Amortization:		
Patents, processes and other	106,922	112,913
Capital assets	32,800	22,401
Research and development	31,961	31,321
	1,688,536	1,336,745
Net earnings	29,724	74,409
Retained earnings, beginning of year	494,381	419,972
Retained earnings, end of year	\$ 524,105	\$ 494,381
Earnings per share	\$ —	\$ 0.01

See accompanying notes to consolidated financial statements.

PERFECT FRY CORPORATION

Consolidated Statements of Changes in Financial Position

Years ended October 31, 1997 and 1996

	1997	1996
Cash provided by (used in):		
Operations:		
Net earnings	\$ 29,724	\$ 74,409
Items not affecting cash:		
Amortization of patents, processes and other	106,922	112,913
Amortization of capital assets	32,800	22,401
	169,446	209,723
Changes in non-cash operating working capital	312,060	(257,905)
	481,506	(48,182)
Financing:		
Decrease in long-term debt	(118,500)	(39,500)
Issue of share capital	76,919	106,625
	(41,581)	67,125
Investing:		
Additions to deferred development costs	(261,290)	(40,001)
Additions to capital assets	(96,622)	(13,402)
Additions to patents and processes	(27,567)	(12,248)
	(385,479)	(65,651)
Increase (decrease) in cash	54,446	(46,708)
Cash, beginning of year	10,417	57,125
Cash, end of year	\$ 64,863	\$ 10,417

See accompanying notes to consolidated financial statements.

PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements

Years ended October 31, 1997 and 1996

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and those of its subsidiary companies all of whom are wholly owned.

(b) Inventories:

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weight-average method and includes material, direct labour and overhead.

(c) Capital assets:

Capital assets are recorded at cost less applicable government grants. Amortization is provided as follows:

	Basis	Rate
Office and equipment	Declining-balance	20% to 30%
Leasehold improvements	Straight-line	Over the term of the lease
Other assets	Declining-balance	25%

(d) Patents, processes and other:

Patents and processes acquired are being amortized on a straight-line basis over ten years.

Development costs are expensed unless they meet specific criteria related to technical, market and financial feasibility, in which case they are recorded at cost, less applicable government grants, and are deferred and amortized on a straight-line basis over three years.

Goodwill represents the excess purchase price paid on the acquisition of subsidiary companies over the value assigned to identifiable net assets and is being amortized on a straight-line basis over ten years.

The value of the residual unamortized balances of patents, processes, deferred development costs and goodwill is assessed at least annually with reference to the projected cash flows, undiscounted, related to these assets.

PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 2

Years ended October 31, 1997 and 1996

1. Significant accounting policies (continued):

(e) Measurement uncertainty:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses during the reporting period. In the consolidated financial statements of the Company, the most significant areas for which management is required to make near-term estimates is in the assessment of the net realizable value of inventories and the net recoverable value of patents, processes and deferred development costs. Actual amounts could differ from those estimates.

2. Inventories:

	1997	1996
Finished units	\$ 352,570	\$ 638,419
Parts	466,870	623,510
	\$ 819,440	\$ 1,261,929

3. Capital assets:

1997	Cost	Accumulated amortization	Net book value
Office and equipment	\$ 208,712	\$ 78,961	\$ 129,751
Leasehold improvements	27,388	14,270	13,118
Other assets	70,299	64,681	5,618
	\$ 306,399	\$ 157,912	\$ 148,487

1996	Cost	Accumulated amortization	Net book value
Office and equipment	\$ 115,712	\$ 50,531	\$ 65,181
Leasehold improvements	23,767	11,781	11,986
Other assets	70,299	62,801	7,498
	\$ 209,778	\$ 125,113	\$ 84,665

PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 3

Years ended October 31, 1997 and 1996

4. Patents, processes and other:

1997	Cost	Accumulated amortization	Net book value
Patents and processes	\$ 589,183	\$ 242,205	\$ 346,978
Deferred development costs	458,384	176,794	281,590
Goodwill	30,000	13,300	16,700
	\$ 1,077,567	\$ 432,299	\$ 645,268

1996	Cost	Accumulated amortization	Net book value
Patents and processes	\$ 561,616	\$ 175,385	\$ 386,231
Deferred development costs	197,094	139,692	57,402
Goodwill	30,000	10,300	19,700
	\$ 788,710	\$ 325,377	\$ 463,333

5. Bank operating line:

The Company has a bank operating credit facility of \$300,000. Advances under this facility bear interest at prime plus 1.25% and are secured by all assets of the business.

6. Share capital:

(a) Authorized:

Unlimited number of preferred and common shares.

(b) Issued:

	Number of common shares	Amount
Balance, October 31, 1995	9,076,351	\$ 1,249,927
Private placement	255,000	74,625
Exercise of warrants	100,000	32,000
Balance, October 31, 1996	9,431,351	1,356,552
Exercise of warrants	192,297	76,919
Balance, October 31, 1997	9,623,648	\$ 1,433,471

All share issues above were for cash.

PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 4

Years ended October 31, 1997 and 1996

6. Share capital (continued):

(c) Options:

At October 31, 1997, 745,000 options to acquire common shares were outstanding with exercise prices ranging from \$0.375 to \$1.00 and expiring from time to time up to April 29, 2000. Of the options outstanding, 575,000 were issued to directors and officers of the Company.

(d) Earnings per share:

Earnings per share have been calculated using the monthly weighted average number of common shares outstanding during the year. The effects of the exercise of outstanding share options are not dilutive to earnings per share.

7. Export sales:

The Company had sales to one distributor in the United States which accounted for 33% of total revenue in 1997 (1996 - 48%). Total sales to customers in the United States in 1997 were approximately \$1,165,000 (1996 - approximately \$938,000).

8. Income taxes:

A provision for income taxes, which would otherwise have been recorded, has been eliminated for the reasons outlined below, expressed in relation to the combined Federal and Provincial income tax rate applied to net earnings.

	1997	1996
Net earnings	\$ 29,724	\$ 74,409
Combined federal and provincial income tax rate	44.6%	44.6%
Computed income tax provision	\$ 13,000	\$ 33,000
Increase (decrease) resulting from:		
Recognition of loss carry-forwards not previously recognized	(25,350)	(46,000)
Non-deductible amortization	11,500	12,000
Other	850	1,000
	\$ —	\$ —

PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 5

Years ended October 31, 1997 and 1996

8. Income taxes (continued):

The Company has non-capital losses for income tax purposes which may be carried forward to reduce taxable income in future years. The losses expire as follows:

1999	\$ 139,000
2000	44,000
2001	371,000
2003	82,000
	<hr/>
	\$ 636,000

The Company has aggregate tax pools including the above non-capital losses available for deduction against future years taxable income in the amount of \$3,115,000.

The potential benefit of the above losses and timing differences has not been recognized in the financial statements.

9. Commitment:

The Company is committed to annual operating lease payments for facilities of \$18,000 plus operating costs until January 31, 1999.

10. Financial instruments:

Financial instruments of the Company include cash, accounts receivable and accounts payable and accrued liabilities. The fair values of all financial instruments are estimated to approximate their carrying values.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Jack F. Senior, Chairman
President,
Speedi Gourmet Ltd.
Vancouver, B.C.

Gary G. Calderwood
President and CEO,
Perfect Fry Corporation

P. Glenn Calderwood
Owner-Manager & Director,
Private Corporations
Calgary, Alberta

William O. Wright
President,
Guidance Financial Consultants
Wichita, Kansas

LEGAL COUNSEL

Macleod Dixon
#3700, 400 3rd Avenue SW
Calgary, Alberta T2P 4H2

OFFICERS

Gary G. Calderwood
President, CEO,
Secretary-Treasurer

Cynthia C. Horne
Chief Financial Officer

AUDITORS

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Chartered Accountants
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1-800-265-7711
E-Mail: perfect@canuck.com
Internet: www.perfectfry.com

INVESTOR RELATIONS

Jack Wilson

STOCK EXCHANGE LISTING

Alberta Stock Exchange,
Symbol: PNM

As of October 31, 1997 there
were 9,623,648 shares issued
and outstanding.



PERFECT FRY

REPORT 1997

CORPORATION

PRINTED IN CANADA

